

**Supporting Statement for the
Reports of Foreign Banking Organizations
(FR Y-7N, FR Y-7NS, and FR Y-7Q; OMB No. 7100-0125)**

Summary

The Board of Governors of the Federal Reserve System (Board or Federal Reserve), under delegated authority from the Office of Management and Budget (OMB), proposes to extend, with revision, the mandatory Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q; OMB No. 7100-0125) effective September 30, 2016. The family of reporting forms also contains two other mandatory reports, which are not being revised at this time:

- (1) The Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations¹ (FR Y-7N; OMB No. 7100-0125), and
- (2) The Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7NS; OMB No. 7100-0125).

The FR Y-7Q collects consolidated regulatory capital information from all foreign banking organizations (FBOs) either quarterly or annually. The FR Y-7Q is filed quarterly by FBOs that have effectively elected to become U.S. financial holding companies (FHCs) and by FBOs that have total consolidated assets of \$50 billion or more, regardless of FHC status. All other FBOs file the FR Y-7Q annually. The FR Y-7N and FR Y-7NS collect financial information for non-functionally regulated U.S. nonbank subsidiaries held by FBOs other than through a U.S. bank holding company (BHC), FHC, or U.S. bank. FBOs file the FR Y-7N quarterly or annually or the FR Y-7NS annually predominantly based on asset size thresholds.

The Federal Reserve proposes to collect fourteen new data items to monitor compliance with enhanced prudential standards for FBOs adopted pursuant to Subparts N and O of Regulation YY. The new data items would be used to determine whether an FBO with total consolidated assets of \$50 billion or more meets capital adequacy standards at the consolidated level that are consistent with the Basel capital framework, as defined in Regulation YY. The proposed revision would be effective September 30, 2016, and for some items, March 31, 2018. The designation and proposed reporting by U.S. intermediate holding companies (IHCs) would result in a decrease in the number of FR Y-7N/NS respondents by 154, from 269 to 115.² As a result of the proposed revision and change in the number of estimated respondents, the total annual burden for the FR Y-7 series of reports, which currently is estimated to be 4,939 hours, would decrease to an estimated 2,819 hours.

Background and Justification

The Federal Reserve implemented the FR Y-7 in January 1972 and required only foreign banks that controlled a U.S. subsidiary bank to file. With the enactment of the International

¹ Excludes nonbanking subsidiaries held through a U.S. bank holding company or U.S. bank subsidiary.

² 81 FR 6265 (February 5, 2016).

Banking Act of 1978 (IBA), the Congress established a framework for federal regulation of foreign banks operating in U.S. financial markets. Section 7 of the IBA authorizes the Federal Reserve to examine U.S. branches, agencies, and subsidiary commercial lending companies of foreign banks and to assess the condition of the multi-state banking operations of foreign banks. Section 8(a) of the IBA states that foreign banks that engage in banking in the United States through a U.S. branch, agency or subsidiary commercial lending company and companies that control such foreign banks are subject to the provisions of the BHC Act, as amended.

In 2002, the Federal Reserve revised the FR Y-7 and implemented the FR Y-7Q, FR Y-7N, and FR Y-7NS. Revisions to the FR Y-7 included: moving the risk-based capital reporting requirement to the FR Y-7Q and moving the Nonbank Financial Information Summary (NFIS) report, which included data from U.S. nonbank subsidiaries held directly by a foreign parent (i.e., not through a U.S. BHC or U.S. FHC or U.S. bank), to the FR Y-7N or FR Y-7NS.

In December 2013, the Federal Reserve reduced reporting burden by increasing the asset size thresholds for filing the FR Y-7N and FR Y-7NS annual reports to total assets greater than or equal to \$500 million, but less than \$1 billion and to total assets of at least \$250 million, but less than \$500 million, respectively.

In March 2014, the Federal Reserve revised the FR Y-7Q to modify the quarterly filing requirements and to add a data item to the reporting form. The respondent panel was modified to require all FBOs with total consolidated assets of \$50 billion or more to begin filing quarterly effective March 31, 2014, regardless of FHC status. The data item was added to Part 1 to collect the top-tier FBO's total combined assets of U.S. operations, net of intercompany balances and transactions between U.S. domiciled affiliates, branches, and agencies.

In December 2014, the Federal Reserve revised the FR Y-7Q to collect a new data item, Total U.S. non-branch assets, to determine whether an FBO meets the threshold for formation of a U.S. Intermediate Holding Company (IHC). This item collects the sum of the total combined U.S. assets of a top-tier FBO's top-tier U.S. domiciled affiliates less its branch and agency assets.

The Federal Reserve System uses information collected on this family of reports to assess an FBO's ability to be a continuing source of strength to its U.S. operations and to determine compliance with U.S. laws and regulations. This information is not available from other sources.

Description of the Information Collection

Current FR Y-7Q

The FR Y-7Q collects consolidated capital and asset information from all FBOs. Part 1 of the reporting form currently collects the following information: tier 1 capital, total risk-based capital, risk-weighted assets, total consolidated assets, total combined assets of U.S. operations, net of intercompany balances and transactions between U.S. domiciled affiliates, branches, and agencies, and total U.S. non-branch assets. In addition, FBOs that file the FR Y-7Q because of the FHC designation also must provide separate capital schedules on Part 2 of the FR Y-7Q

quarterly for each lower-tier FBO operating a branch, agency, Edge or agreement corporation, or commercial lending company in the United States.

The FR Y-7Q is filed quarterly by FBOs if the top-tier FBO or any FBO in its tiered structure has effectively elected to be an FHC and by FBOs with total consolidated assets of \$50 billion or more, regardless of FHC status. The FR Y-7Q is filed annually if the FBO or any FBO in its tiered structure has not effectively elected to be a FHC and the FBO has total consolidated assets of less than \$50 billion.

Current FR Y-7N and FR Y-7NS

The FR Y-7N consists of an income statement and a balance sheet, schedules that collect information on changes in equity capital, changes in the allowance for loan and lease losses, off-balance-sheet data items, loans, and a memoranda section. All FBOs file the FR Y-7N quarterly for their significant nonbank subsidiaries. Subsidiaries are defined as significant if they have total assets of at least \$1 billion or off-balance-sheet activities (including commitments to purchase foreign currencies and U.S. dollar exchange, all other futures and forwards contracts, option contracts, and the notional value of interest rate swaps, exchange swaps and other swaps) of at least \$5 billion, as of the end of a quarter. FBOs commence quarterly reporting for these subsidiaries at the end of the quarter in which the subsidiaries meet the significance threshold. The FR Y-7N is filed annually, as of December 31, for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of at least \$500 million, but less than \$1 billion.

The FR Y-7NS is an abbreviated reporting form that collects net income, total assets, equity capital, and total off-balance-sheet data items. The FR Y-7NS is filed annually as of December 31 by top-tier FBOs for each individual nonbank subsidiary (that does not meet the filing criteria for filing the detailed report) with total assets of at least \$250 million, but less than \$500 million.

Proposed Revisions to the FR Y-7Q

On February 18, 2014, the Board approved a final rule under section 165 of the Dodd-Frank Act that requires an FBO with total consolidated assets of \$50 billion or more to certify to the Board that it meets capital adequacy standards on a consolidated basis, as established by its home-country supervisor, that are consistent with the regulatory capital framework published by the Basel Committee on Banking Supervision.³ This requirement was intended to help ensure that the consolidated capital base supporting the activities of U.S. branches and agencies remains strong, and to lessen the degree to which weaknesses at the consolidated foreign parent could undermine the financial strength of its U.S. operations. The following new data items would be used to determine whether an FBO with total consolidated assets of \$50 billion or more meets capital adequacy standards at the consolidated level that are consistent with the Basel capital framework.

³ See 12 CFR part 252. Basel III was published in December 2010 and revised in June 2011. The text is available at <http://www.bis.org/publ/bcbs189.htm>.

Part 1B (new section for FBOs >\$50 billion in total assets)

The proposal would require an FBOs with total consolidated assets of \$50 billion or more to complete a new section, Part 1B, effective September 30, 2016 (with three of the proposed items effective March 31, 2018). Proposed Part 1B would contain 14 items related to home country regulatory capital ratios that would be reported on a quarterly basis. The value of each of these items would be calculated on a consolidated basis according to the methodologies established by the FBO's home-country supervisor that are consistent with the Basel capital framework, as defined in Regulation YY.⁴ If the home-country supervisor has not established capital adequacy standards consistent with the Basel capital framework, the value of these items would be calculated on a pro-forma basis as if the FBO were subject to such standards. The proposed line items that would be effective September 30, 2016, include:

- (1) Common equity tier 1 capital,
- (2) Additional tier 1 capital,
- (3) Tier 1 capital (sum of items 1 and 2),
- (4) Tier 2 capital,
- (5) Total risk-based capital (sum of items 3 and 4),
- (6) Capital conservation buffer,
- (7) Countercyclical capital buffer,
- (8) Other applicable capital buffer(s)
 - (a) GSIB/DSIB buffer
 - (b) Pillar II buffer
 - (c) "Other" buffer
- (9) Compliance with restrictions on capital distributions and discretionary bonus payments associated with a capital buffer.

The proposed line items that would be effective March 31, 2018, include:

- (10) Home country capital measure used in the numerator of the leverage ratio as set forth in the Basel capital framework,
- (11) Home country exposure measure used in the denominator of the leverage ratio as set forth in the Basel capital framework,
- (12) Minimum home country leverage ratio (if different from the leverage ratio in the Basel capital framework, as applicable).

Part 1A (renaming existing Part 1 section applicable to all FBOs)

As noted above, Part 1A of the current FR Y-7Q form, which applies to all FBOs, collects tier 1 capital, total risk-based capital, risk-weighted assets, total consolidated assets and total combined assets of U.S. operations, net of intercompany balances and transactions between U.S. domiciled affiliates, branches, and agencies, and total U.S. non-branch assets. While the Federal Reserve does not propose to change existing items reported in Part 1A of the FR Y-7Q, the proposal would modify the instructions to clarify that an FBO would be required to report

⁴ See 12 CFR Part 252.143 and 252.154.

Tier 1 capital and Total risk-based capital only on Part 1B, if the FBO's home country methodologies are consistent with the Basel capital framework.

The instructions would also clarify the reporting frequency of Part 1, in light of the new proposed section. Specifically, FBOs with total consolidated assets of less than \$50 billion and that are not FHCs would only file Part 1A on an annual basis. FBOs who have elected to become FHCs and do not have \$50 billion or more in total consolidated assets will file Part 1A on a quarterly basis. FBOs with total consolidated assets of \$50 billion or more would complete both Part 1A and Part 1B on a quarterly basis.

Frequency

The Federal Reserve recommends no changes to the reporting frequency of the FR Y-7N/NS and FR Y-7Q. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection and Publication

FBOs are required to file the FR Y-7N (quarterly/annually) and FR Y-7NS reports 60 days after the report date. All FBOs are required to file the FR Y-7Q within 90 days after the report date. Meeting the thresholds for filing quarterly is self-determined by the respondent and ascertained as of the reporting date. No changes to these filing schedules are recommended. The data from these reports that are not given confidential treatment are available to the public, but are not published routinely.

Legal Status

Collection of this information, as well as the FR Y-7N, FR Y-7NS, and FR Y-7Q reports, more generally, is authorized by Section 5(c) of the Bank Holding Company Act (12 U.S.C. § 1844(c)) and sections 8(c) and 13 of the International Banking Act (12 U.S.C. §§ 3106(c) and 3108). Moreover, Section 165 of the Dodd-Frank Act (12 U.S.C. § 5365) directs the Federal Reserve to establish enhanced prudential standards for certain companies, including certain FBOs, and this information is necessary to implement those requirements. The data may not be confidential in all cases. However, individual respondents may request confidential treatment for any of these reports pursuant to sections (b)(4) and (b)(6) of the Freedom of Information Act (5 U.S.C. §§ 522(b)(4) and (b)(6)). The applicability of these exemptions would be determined on a case-by-case basis. In addition, items 8.b and 8.c in Part 1B of the FR Y-7Q involve disclosure of capital buffers imposed by an FBO's home country supervisor. While some home country supervisors do not accord confidential status to that information or do so only on a case-by-case basis, others treat this information as confidential on a blanket basis under the belief that a more selective confidential treatment could signal an FBO's financial strength or weakness and could thereby cause substantial competitive harm. Because the information on items 8.b and 8.c may or may not be public depending on the FBO's home country, the Federal Reserve would grant confidential status, pursuant to FOIA exemption 4, only on a case-by-case basis.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Respondent Burden

As shown in the following table, the current annual reporting burden for this family of reports is estimated to be 4,939 hours. The proposed revisions to the FR Y-7Q would result in an increase in burden of 680 hours due to the increase in estimated average hours per response from 1.25 to 2.5; however, the number of FR Y-7N/NS respondents is estimated to decrease by 154, from 269 to 115, due to the proposed reporting by IHCs. As a result of these changes, the total annual burden for the FR Y-7 series of reports would decrease to an estimated 2,819 hours. The reporting requirements for the FR Y-7 family of reports represent less than 1 percent of total Federal Reserve System annual burden.

	<i>Number of respondents⁵</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i><u>Current</u></i>				
FR Y-7N (quarterly)	138	4	6.8	3,754
FR Y-7N (annual)	59	1	6.8	401
FR Y-7NS	72	1	1	72
FR Y-7Q (quarterly)	136	4	1.25	680
FR Y-7Q (annual)	<u>32</u>	1	1	<u>32</u>
<i>Total</i>	437			4,939
<i><u>Proposed</u></i>				
FR 7N (quarterly)	43	4	6.8	1,170
FR Y-7N (annual)	32	1	6.8	218
FR Y-7NS	40	1	1	40
FR Y-7Q (quarterly)	136	4	2.5	1,360
FR Y-7Q (annual)	<u>32</u>	1	1	<u>32</u>
<i>Total</i>	283			2,819
<i>Difference</i>	(154)			(2,120)

⁵ Of the respondents required to comply with the FR Y-7N/NS information collection, 45 FR Y-7N/NS filers are estimated to be small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets). www.sba.gov/content/small-business-size-standards.

The total annual estimated cost to the public is estimated to be to \$255,583 and would decrease to \$145,894, which is a net decrease of \$109,689.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing this report will be obtained.⁶

⁶ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ \$17, 45% Financial Managers @ \$63, 15% Lawyers @ \$64, and 10% Chief Executives @ \$87). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages May 2014, published March 25, 2015, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational, Classification, www.bls.gov/soc/.